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FGMS

COMPTROLLER GENERAL OF THE UNITED STATES  
 WASHINGTON, D.C. 20548

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B-134192

May 2, 1979

The Honorable Frank Horton  
 House of Representatives

Dear Frank:

Do not make available to public reading

I am responding to your letter of March 7, 1979, in which you raised several questions with regard to our position on the [use of military personnel to fill the position of auditor general]. The first question you raised was why we did not include all of the reasons we have since advanced for favoring civilians in these positions instead of military personnel. The answer, quite frankly, is that when we issued the reports we thought the civilianization argument was strong enough to carry the point without including all the other issues bearing on this matter in the report. Also, the civilianization of the Army Auditor General position had been presented earlier to the Army and the Department of Defense (DOD) and they agreed to fill the position with a civilian. We expected the other Departments would do the same.

As for the guidance prescribed by DOD in this matter, the prime directives were 1100.4 and 1100.9. They identify criteria including military preparedness and job tenure that should be considered in determining whether positions should be filled by military personnel or civilians. We believe these directives clearly call for civilians in these positions. It is true that DOD Instruction 7600.5 also relates to this issue but being an instruction it is subordinate to the directives. Moreover, it is permissive in that it would permit either civilians or military personnel to fill these positions so it did not bar the services from choosing the civilian alternative.

In view of the above, we did not think the matter was as controversial as it has since proven to be. Since recent events have shown that we were wrong in our original conclusion that putting forth all the supporting details for our recommendation for a civilian auditor general was not necessary, we have set them forth below.

#### QUALIFICATIONS AND TRAINING

One of our primary concerns about the military auditor generals has been their lack of qualifications for the

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post. We have no reason to believe that they were not fine officers, but, for the most part, they were not qualified by experience or training for this type of position. With the exception of the current Air Force Auditor General, most of the recent auditor's general of the Air Force and Navy have not had a background in audit or accounting and finance. Their backgrounds have been in aviation, supply, logistics and research and development.

Being an auditor is not a job one learns in a short time. It takes us about five years to train someone to be a journeyman auditor. Becoming proficient enough to head an audit group takes much longer. While we do not believe that chief auditors need to have spent all their lives as auditors, we believe they should know how to do this kind of work just as general counsels should know the law.

Our formal position has long been that we believe chief auditors, if they do not possess heavy audit experience, should have strong backgrounds in financial management. Some of the military people who have held the auditor general positions in the services have had such a background but a discouragingly large group have not.

We have noticed that within the Air Force Audit Agency an extensive number of military officers have served a major part of their career with the Agency and worked their way up through the ranks--yet none of these officers have become auditor general, rather officers outside the Agency have been appointed as its head.

Accordingly, one of the strong reasons we favor civilians for these positions is that under civil service rules and regulations, a civilian appointed to the position of auditor general will have to meet the experience and training qualifications required for such a position. This is not true where military personnel are involved as the services have proved on a number of occasions.

A similar position was reached in 1970 by an advisory committee to the American Institute of Certified Public Accountants. Its analysis of the audit function in DOD was included as an appendix to the Blue Ribbon Defense Panel's July 1970 report to the President. The advisory committee recommended that all audit groups in DOD be

headed by a civilian with expertise in audit management because greater continuity of audit policy would be assured if a civilian with tenure headed all audit groups in the Department. The advisory group remarked that the military officer assigned to fill such a position usually has little or no professional experience in internal auditing."

### INDEPENDENCE

The ability of a military auditor general to be sufficiently independent to comply with our audit standards is also an issue that we have considered extensively in our work. In considering this issue, many have referred solely to the Standards for Audit of Governmental Organizations, Programs, Activities & Functions which we issued in 1972. These standards, commonly referred to as the "yellow book," contain standards which the auditor should follow in performing his work. They are directed at the auditor and are not directed toward how those who create internal audit positions should structure them. Our standard on how such positions should be structured is contained in our booklet entitled, Internal Auditing in Federal Agencies, which is advisory to the agencies.

In this latter booklet, we address the issue of independence and have stated the following:

"The agency head should satisfy himself that the official to whom the internal auditor reports not only permits but also encourages the internal auditor to exercise latitude in setting the scope of work and in reporting on the results of his audits. The internal auditor should be sufficiently independent to be able to make impartial appraisals of the operation of agency programs and activities, including those under the official to whom the internal auditor reports."

What we mean by this standard is this: independence is important to assure objectivity and impartiality in the auditor's work. Every internal auditor has one basic impairment in his independence, i.e., that he is an employee of the organization he is auditing. Through no fault of his own, he may have

further impairments to his independence because of (1) the organizational situation he finds himself in, (2) external influences that restrict his ability to do a proper job, and (3) personal matters like a blood relationship to a principal official of the organization being audited. Our standards require the auditor to either decline to do an audit when his independence is impaired so greatly that he cannot be impartial or indicate in his report that he is not independent. The information provided should be adequate to explain all impairments. The reader may then judge the worth of his report and any opinions given in it in the light of these impairments.

If the impairments become too great, the credibility of the auditor's work is destroyed. It is our view that the use of a military person in the auditor's general role adds an impairment in the eyes of many who would use his work because military personnel are part of a chain of command. Rightly or wrongly, it is perceived that they follow the orders of their superiors without the objectivity or impartiality expected of auditors. Accordingly, the appointment of military personnel to such positions does not meet the standard which we feel is desirable for internal auditors, namely, that they have no actual or perceived organizational impairment to their independence save the basic unavoidable one, that they are employees of the organization they serve.

The reports on Air Force and Navy internal audit are part of a trilogy on this subject. The third report is on the Army internal audit. It is the one issued first and the one reviewed in the greatest depth. The Army story is perhaps one of the best indications of why independence is essential to effective audit work. In our report on the Army Audit Agency, we reported that the activities the Agency audited were chosen by an Inspection and Audit Priority Committee, the Agency was restricted in the areas they could audit, and the scope of their audits was also restricted. As a result of these restrictions, the Army was denied the value of many of the solutions to important problems that might have emanated from the auditors' work. A copy of this report is enclosed for your information (FGMSD-77-49, July 26, 1977).

During the hearing before the Legislation and National Security Subcommittee the Army, with DOD's concurrence, agreed that the position of the Chief of the Army Audit Agency should be filled by a professionally qualified civilian. The Army told the Subcommittee it recognized the "merit of establishing a high degree of auditor expertise and job continuity at the top management level of the Agency and felt that from the standpoint of background and professional experience, the position of Chief of the Audit Agency can best be filled by a civilian."

In a March 9, 1979, followup report the Army advised us that they have implemented many of the GAO recommendations on the Army Audit Agency, including civilianization of the position of auditor general. As a result the Army now feels these changes have "enhanced both the posture and effectiveness of the Army's audit program."

#### QUALITY OF WORK

In your letter you mentioned that we cited the work of the service audit groups as generally good. It is true that all of the audit groups have some highly skilled auditors on their staffs and that some of the work they have done has been excellent. This is not to say, however, that they could not be improved considerably. In each of the reports we issued, we have discussed ways in which their work could be improved and greater benefits obtained from the internal audit effort. One such way, would be to improve the independence and qualifications of their leadership by putting a civilian in the job.

#### PROPOSED REVISIONS BY THE NAVY AND AIR FORCE

The Assistant Secretary of the Navy in a letter dated March 9, 1979, advised me that responsibility for the internal audit program had been transferred to the Under Secretary and two new audit review groups had been established.

The primary Coordinating Group will be chaired by the Under Secretary and will provide oversight and direction to the audit function within the Department and will review findings and trends of significance to ensure that effective corrective actions are taken. The Coordinating Group will be staffed by all Assistant

Secretaries, the General Counsel of the Navy, the Vice Chief of Naval Operations, and the Assistant Commandant of the Marine Corps,

Also, the Navy has established within the Department an Audit, Inspection, and Investigation Coordinating Group with the prime function of evaluating audit, inspection, and investigation activities and the development of recommended changes needed to assure proper performance and coordination. This Group will be chaired by the Naval Inspector General and will include as members the Marine Corps Inspector General; Deputy Comptroller; Auditor General; Director, Naval Investigative Service; and a representative from the Naval General Counsel.

We have considered the proposed changes by the Navy and believe they could be beneficial if properly handled. However, we have some apprehension about how these groups will work based on the Army's experience. If the groups support the auditor general and help to get corrective action for the problems he finds, the result could be very positive. If on the other hand they restrict the scope of his work and the issues he considers, the result could diminish his effectiveness.

I think I should add that auditors can often be called upon to help management solve internal problems management has identified. To use auditors this way is a positive and valuable approach. However, if the auditors do not have a substantial amount of their time available for self initiated work, they lose their ability to identify unsuspected problems for management's attention. We find this true in our own work--some of the most significant matters we have reported to the Congress were initiated by us rather than requested by them. Accordingly, we believe the Navy should be certain these groups permit the auditor to have at least 50 percent of the time of his staff available for self initiated work.

Insofar as whether these groups will make a military auditor general more desirable, we think not. The basic problems of qualification and independence still exist.

I met with Secretary Stetson on February 26, 1979, and he told me that he was proposing a revision in

the appointment of Air Force Auditors general. The proposed revision would provide for a military auditor general who:

- will have a term of 4 years subject to extension by the Secretary,

- will have the rank of Major General and would be ineligible for further promotions, and

- will not be eligible for any other positions in DOD (this would be a terminal assignment).

This would improve the situation, but in our view, still would not be as desirable as having a civilian auditor general. There is still the question of qualifications. Also, in the eyes of others, military personnel are perceived as being in a military chain of command and are not perceived as independent as civilians no matter what changes are made to make their personal situation seem more independent.

Personally, I am surprised that the civilian leaders of the Air Force and Navy have pushed this issue so vigorously since we are committed in this country to civilian control of the military. One possible reason for this could be as Secretary Stetson indicated there was concern within the military commands that an audit agency headed by a civilian would be external to their organization. As he explained to us he is skeptical of the ability of civilians, particularly short term civilians like those in appointed positions in the Air Force, to gain control over the military. Therefore, as we understood him, he hopes to build a strong militarily controlled audit organization to help the military police itself.

We tend to disagree with this approach, being strongly committed to the view that the audit agency should be the Secretary's eyes-and-ears within his Department. The auditor general should be reporting the results of his audits to the Secretary for his consideration rather than to the individual military commanders whom he is auditing. The military commanders have their own internal investigative staff within their respective Inspector General programs



who are their confidential agents responsible directly to them. Therefore, it would appear that the only loss to the military commanders, if a civilian were head auditor, would be their possible influence over the operations of the audit agency. ||

Another reason mentioned was that the Office of the Secretary (specifically Assistant Secretary Jack Hewitt) told us he does not have sufficient staff to review all significant audit reports and consider the adequacies of proposed corrective measures. We believe that such a staff is needed to fulfill the Secretary's managerial mission so that appropriate action will be obtained on problems disclosed by the auditors.

### CONCLUSION

All in all it seems to me that the services would be better off with civilian auditors general. Our basic organizational standard is that an auditor general should have no impairments to his independence save that of being an employee of the organization he audits 1/. In keeping with this standard we have long advocated that the auditor general be responsible only to the highest levels in the organization. Since military personnel have an additional impairment as discussed above, they do not fully comply with our standards. Moreover, if past experience is a guide, the civilian auditors general are likely to be better qualified for the position. Finally, a civilian seems the appropriate choice for a country that favors civilian control over the military.

Sincerely yours,



Comptroller General  
of the United States

Enclosure

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1/ It is interesting to note that the legislation establishing Inspector Generals in civilian agencies, P.L. 95-452, goes even farther in this area making the Inspector General responsible for reporting to Congress on the deficiencies he finds in the agency that employs him.